

MARQUEST CANADIAN FIXED
INCOME FUND

MARQUEST CANADIAN FIXED INCOME FUND

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE | For the Year Ended December 31, 2016

A NOTE ON FORWARD-LOOKING STATEMENTS

This report contains forward looking statements. These statements primarily relate to assessments of future economic and market conditions. Such information has been included to assist readers with assessing recent developments in the Fund's operating climate and possible future developments that may affect Fund performance. All forward looking statements are based on management's current beliefs and assumptions which are subject to numerous risks and uncertainties. Statements with respect to future economic and market conditions are based on management's beliefs and assumptions with respect to a range of factors, including market conditions generally and within the sectors in which the Fund's investments operate. While management considers such beliefs and assumptions to be reasonable based on information currently available to it, no assurance can be given that such beliefs and assumptions will prove to be correct. Events or circumstances may cause actual results to differ materially from those expressed or implied by such forward looking statements as a result of numerous known and unknown risks and uncertainties, including, but not limited to, those associated with economic and market conditions, political stability and other risks identified in the Fund's prospectus. Most of these factors are beyond the control of the Fund and its Manager. Neither the Fund nor its Manager assumes any obligation to update any of the forward looking statements made in this report.

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This annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Marquest Canadian Fixed Income Fund (the "Fund"). You can get a copy of the annual financial statements at your request, and at no cost, from the manager Marquest Asset Management Inc. (the "Manager") by calling toll-free 1-888-964-3533, by writing to us at Suite 4420, 161 Bay Street, PO Box 204, Toronto, Ontario, M5J 2S1 or by visiting our website at www.marquest.ca or SEDAR at www.sedar.com.

Securityholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

Management Discussion of Fund Performance

Investment Objectives and Strategies

Investment Objectives

The Fund seeks to provide income by investing in a diversified portfolio of investment grade fixed-income assets, primarily denominated in Canadian dollars. The Fund's objective is to exceed, to the extent possible, the performance of the FTSE TMX Canada Universe Bond Index.

Investment Strategies

An actively managed core fixed income strategy investing in government and investment grade corporate bonds. The investment strategy includes: duration and yield curve management; and sector, industry, issuer and individual security selection; with an emphasis on duration and credit risk.

Risks

There are risks associated with investing in the Fund. There have been no changes to the Fund which affected the risks associated with investing in the Fund during the year. Specific risk information can be found in the Fund's prospectus available through our website at www.marquest.ca or at SEDAR's website www.sedar.com.

Results of Operations

As at December 31, 2016, the Fund's total NAV was \$5,043,272, an increase of 15.65% since the year end (December 31, 2015: \$4,360,716). This change was primarily the result of net subscriptions of \$710,963 and interest income of \$134,150. These were partially offset by distribution to unitholders of \$122,783 and management fees of \$35,229.

The Marquest Canadian Fixed Income Fund ("Fund") Class A returned 1.1% net of fees and expenses for the 12 months period ending December 31, 2016. The benchmark, FTSE TMX Canada Universe Bond Index ("Universe") returned 1.66% over the same time period (no adjustment for fees or expenses). 2016 was divided in two distinct periods: the bond market rally that endured through the first three quarters of the year (the Universe returned 5.28%); and the subsequent backup through the fourth quarter (the Universe returned -3.44%). The fund's performance benefitted from a combination of defensive positioning that came into play in Q4 and active trading of corporate and provincial positions throughout the year.

In terms of yields, the yield curve did a round trip and more during the year, with the curve flattening in the first part and then steepening back in the second. Ten-year Government of Canada yields fell by 40 basis points From January through September, and then rose by 72 bps From October to year-end. The move in short-term yields was less significant, given the Bank of Canada's stable monetary policy – two-year Canada's rose by 4 bps over the first three quarters and then an additional 22 bps in the fourth. The slope of the Government of Canada yield curve (2-30's) stood at 157 bps at year end, versus 188 bps for the US Treasury curve (2-30's).

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Results of Operations (Continued)

The fund was structured with a short duration (relative to the Universe Index) and steepening bias for the entire year. We had been expecting a steeper Canadian yield curve with stable short term yields and higher long term yields for some time while also considering that the overall risk/return profile of the Canadian bond market had deteriorated, given that investors were not being well compensated for taking on duration risk, particularly for government bonds. That being said, our analysis also indicated that the best risk/return profile in the bond market was (and still is) for short term corporate bonds. Notably, we maintained a significant position – close to 60% of the fund – in short-term high quality corporate bonds throughout the year.

The bond market rally that dominated the first part of the year was driven by several key factors: a reluctant Federal Reserve that emboldened risk-taking in the US bond market, with the Canadian bond market following suit; aggressive monetary policy from the ECB and BoJ that drove longer term yields lower in developed-country bond markets; and a general acceptance that future economic growth would continue to be relatively low with little help from fiscal, regulatory, trade and other policies which were unlikely to deviate from the status quo. All three of the factors mentioned above were seen in a somewhat different light in Q4: a falling unemployment rate coupled with stronger data prompted Janet Yellen to take a more convincing hawkish policy stance (despite the Fed still smarting over credibility concerns); ECB and BoJ displayed “monetary policy” exhaustion, thus removing some of the downward pressure on longer-term yields; and the election of Donald Trump, which dramatically altered expectations for fiscal, regulatory, trade and other policies.

Although the bond market response to the Trump victory was dramatic, we maintain that the market was mostly pricing in more symmetry to the risk profile around bond prices. Initially, the fourth quarter yield reversal was about central banks and their loosening grip on bond yields. For most of the year, monetary policies and the bias towards existing or easier policies ensured that the risk around bond prices was upwards (downwards for yields); globally this began to change in Q4. Secondly, the reversal gained momentum with the election outcome that implied some kind of change to the status quo. Many commentators suggest that investors are now assuming that policy change will lead to higher growth and inflation; we are skeptical. We think lower bond prices reflect an increased probability of change from the status quo and the low growth low inflation environment that it implied. However, we think it would be wrong to assume that prices now reflect too much optimism, when there is still so much uncertainty surrounding any kind of policy changes.

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Recent Developments

Recent US economic data suggest both GDP growth and core inflation of around 2% for 2016. In general, the US economy continues to improve, although there are still areas that have been disappointing such as manufacturing and housing. Employment is still showing decent gains which have been positive for consumer sentiment and spending, but have not produced significant wage gains. The Canadian economy has also improved with better employment growth, but is still facing challenges from overall low energy prices, disappointing manufacturing exports and areas of housing weakness. Significant uncertainties remain, including the impact of changes to US Trade and taxation policies, Canadian government infrastructure spending and further repercussions of regulation of real estate transactions in certain markets.

We believe the path for the Fed is towards higher rates, and will see more action, albeit restrained, in 2017. We also expect a higher trajectory given the likelihood of supportive fiscal policy in the years ahead; though it is difficult to predict time, scale and ultimate effectiveness. The yield curve has steepened from a central-bank induced flattened position, and further optimism around growth should steepen it further. We expect to see more volatility to mid and longer term yields as investors try to grapple with the different scenarios ahead. Any steepening and flattening in the US will be exaggerated in Canada, given the stability of Canadian short term rates.

The US political environment poses so many question marks for the global economy and capital markets that we are loathe to make too many predictions. Our bias is that policy changes will be generally supportive of higher growth and inflation. There are also many questions to be answered that are unique to Canada, as a neighbour to the US and its largest trading partner.

We are positioned defensively for a steepening yield curve. We favour an overweight in short term corporates, where the yield spreads and break-evens are attractive on a historical and relative basis. We will continue to look for trading opportunities to take advantage of market movements.

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Related Party Transactions

Marquest Asset Management Inc. is the Manager (“the Manager”) of the Fund. The Manager of the Fund has engaged Lorica Investment Counsel Inc. as the portfolio sub-advisor for the Fund, at its own cost.

The Manager of the Fund is responsible for managing all of the Fund’s activities, including investment advisory and portfolio management services under a Management Agreement. The Management Agreement is subject to automatic renewal for additional one year terms. The Management Agreement may be terminated during its term if the Manager defaults in its performance of any of its duties or obligations thereunder and the if holders pass a resolution at a meeting of holders terminating the Management Agreement as a result of such default. Further, the holders of a Fund may, by resolution passed at a meeting of holders at least 180 days before the end of the initial term or each anniversary thereof, elect not to renew the Management Agreement, whereupon the Management Agreement will not be renewed beyond its existing term. The Manager must give the holders and the Trustee at least 180 days’ notice of its intention not to renew a Management Agreement. Management fees are paid by each class at the rates set out under “Management Fees” below.

During the year, \$35,229 in management fees (including HST) was paid to the Manager. The Manager is also the trustee of the Fund and is responsible for certain aspects of the day-to-day administration. The Fund reimbursed the Manager for operating costs incurred in administering the Fund of \$12,347.

As disclosed in the Fund’s prospectus, the Manager may voluntarily waive, absorb or pay a portion of the Fund’s fees and expenses, at its discretion. During the year the Manager absorbed \$66,800 in expenses of the Fund.

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Financial Highlights

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the past three years. The information is derived from the Fund's audited annual financial statements.

Marquest Canadian Fixed Income Fund (Class A)**			
<i>Net Assets per Unit (\$) ⁽¹⁾</i>			
	2016	2015	2014
Net assets, beginning of the year ⁽²⁾	10.16	10.04	10.00
Increase (decrease) from operations:			
Total revenue	0.28	0.29	0.01
Total expenses (excluding distributions)	(0.16)	(0.17)	-
Realized gains (losses) for the year	0.07	0.03	-
Unrealized gains (losses) for the year	(0.11)	(0.18)	0.03
Total increase (decrease) from operations ⁽²⁾	0.08	(0.03)	0.04
Distributions:			
From net investment income (excluding dividends)	(0.10)	(0.09)	-
From dividends	-	-	-
From capital gains	(0.08)	(0.11)	-
Return of capital	-	-	-
Total annual distributions ⁽³⁾	(0.18)	(0.20)	-
Net assets at December 31st of year shown	10.09	10.16	10.04

Notes:

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets attributable to holders of redeemable units per unit presented in the financial statements may differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to financial statements, if applicable.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ Distributions were paid in cash or re-invested in additional units of the Fund, or both.

*Class A units were first issued on December 1, 2014 at \$10.00.

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Financial Highlights (continued)

Marquest Canadian Fixed Income Fund (Class F)*			
Net Assets per Unit (\$) ⁽¹⁾			
	2016	2015	2014
Net assets, beginning of the year ⁽²⁾	10.14	10.04	10.00
Increase (decrease) from operations:			
Total revenue	0.28	0.28	0.01
Total expenses (excluding distributions)	(0.10)	(0.10)	-
Realized gains (losses) for the year	0.08	0.11	-
Unrealized gains (losses) for the year	(0.05)	(0.10)	0.03
Total increase (decrease) from operations ⁽²⁾	0.21	0.19	0.04
Distributions:			
From net investment income (excluding dividends)	(0.18)	(0.17)	(0.01)
From dividends	-	-	-
From capital gains	(0.08)	(0.10)	-
Return of capital	-	-	-
Total annual distributions ⁽³⁾	(0.26)	(0.27)	0.01
Net assets at December 31st of year shown	10.06	10.14	10.04

Notes:

⁽¹⁾ This information is derived from the Fund's audited annual financial statements. The net assets attributable to holders of redeemable units per unit presented in the financial statements may differ from the net asset value calculated for fund pricing purposes. An explanation of these differences can be found in the notes to financial statements, if applicable.

⁽²⁾ Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ Distributions were paid in cash or re-invested in additional units of the Fund, or both.

*Class F units were first issued on December 1, 2014.

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Financial Highlights (continued)

Ratios and Supplemental Data			
Class A*	2016	2015	2014
Total net asset value (000's) ⁽¹⁾	\$ 311	\$ 136	\$ -
Number of units outstanding ⁽¹⁾	30,829	13,372	1
Management expense ratio ⁽²⁾	1.62%	1.69%	-
Management expense ratio before waivers or absorption ⁽⁵⁾	3.86%	4.79%	88.81%
Trading expense ratio ⁽³⁾	-	-	-
Portfolio turnover rate ⁽⁴⁾	467.23%	451.67%	13.04%
Net asset value per unit ⁽¹⁾	\$ 10.09	\$ 10.16	\$ 10.04
Class F**	2016	2015	2014
Total net asset value (000's) ⁽¹⁾	\$ 4,732	\$ 4,225	\$ 538
Number of units outstanding ⁽¹⁾	470,450	416,756	53,595
Management expense ratio ⁽²⁾	0.96%	0.94%	-
Management expense ratio before waivers or absorption ⁽⁵⁾	2.29%	2.64%	88.81%
Trading expense ratio ⁽³⁾	-	-	-
Portfolio turnover rate ⁽⁴⁾	467.23%	451.67%	13.04%
Net asset value per unit ⁽¹⁾	\$ 10.06	\$ 10.14	\$ 10.04

Notes:

⁽¹⁾ The information is provided as at December 31st of the year shown.

⁽²⁾ Management expense ratio is based on total expenses (excluding commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average net asset value during the period.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period.

⁽⁴⁾ The Fund's portfolio turnover rate indicates how actively the Fund's portfolio adviser manages its portfolio investments. A portfolio turnover rate of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover rate in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.

⁽⁵⁾ Waivers and absorption of certain expenses associated with the Fund are at the Manager's discretion and may be terminated at any time.

*Class A units were first issued on December 1, 2014.

**Class F units were first issued on December 1, 2014.

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Management Fees

The Management fees for each applicable class are calculated daily and are based on the Fund's ending total NAV per class; cumulative daily totals are then paid on a weekly basis. The Manager uses these management fees to pay sales and trailing commissions to registered dealers on the distribution of the Fund units, as well as for the general investment management expenses.

	Maximum Annual Management Fee Rate (%)	As a percentage of Management fees	
		Sales & Trailer Commissions (%)	Investment Advisory and Portfolio Management Services (%)
Class A Units	1.40%	33.28%	66.72%
Class F Units	0.65%	0.00%	100.00%

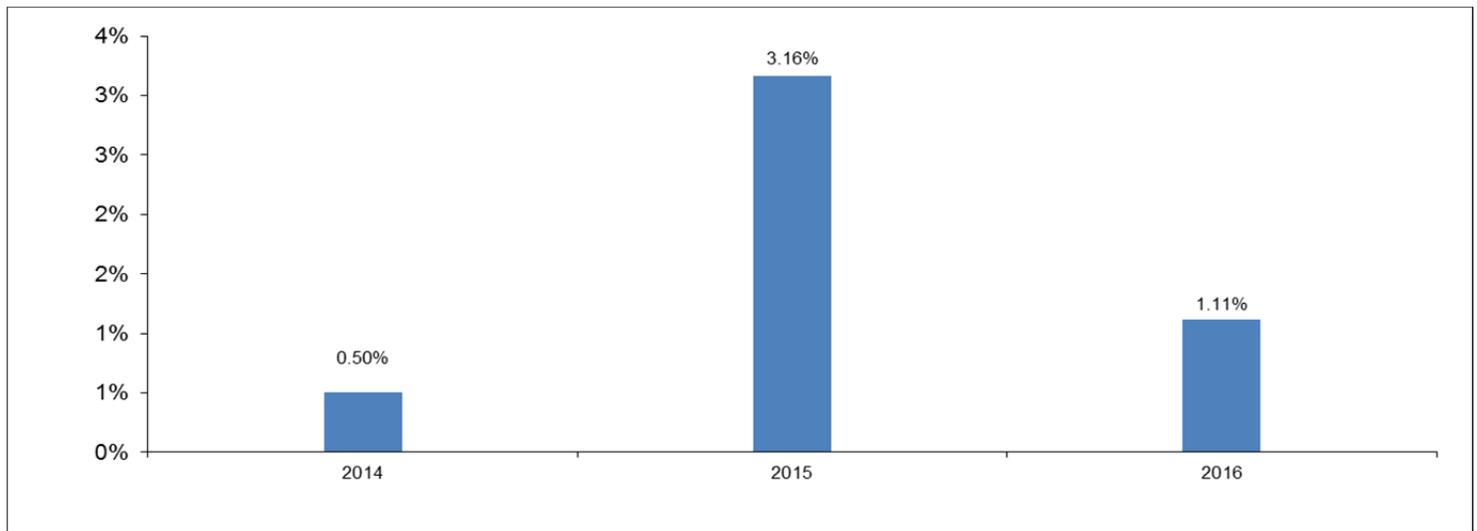
Past Performance

The performance information shown assumes that all distributions made by the Fund in the years shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemptions, distributions or other optional charges that would have reduced returns or performance. How the Fund has performed in the past does not necessarily indicate how it will perform in the future. Performance differences between classes of units are mainly attributable to management fees charged to each class.

Year-by-Year Returns

The following bar chart shows the Fund's annual Class A and F unit's performance for each of the years shown, and illustrates how the Fund's performance has changed from year to year. In percentage terms, the bar chart shows how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

Class A



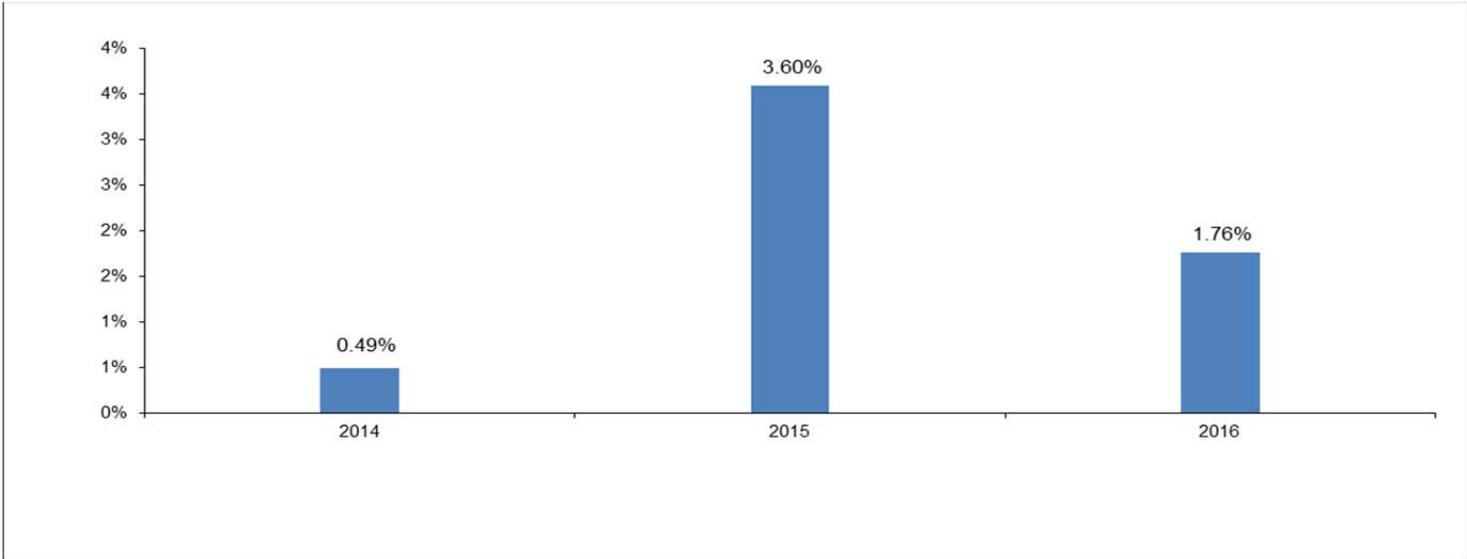
*Inception date for Class A units was December 1, 2014.

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Past Performance (continued)

Class F



*Inception date for Class F units was December 1, 2014.

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Annual Compound Returns

The table below compares the annual compounded performance of the Class A and F units of the Fund against the FTSE TMX Canada Universe Bond Index. This index is capitalization-weighted, with more than 950 Canadian Bonds. It includes the highest quality bonds with term-to-maturity of one to thirty years, designed to reflect the Canadian bond market.

As the index is made up of groups of fixed income securities from various duration periods and market capitalizations, it does not share the same holdings or the same weighted proportions as the Fund and compounded total returns figures between the two may differ. For greater in-depth discussion regarding the Fund's asset class holdings and performance over the year please see the "Results of Operations – Investment Portfolio" section of the MRFP.

	1 Year %	3 Years %	5 Years %	10 Years %	Since Inception %
Class A	1.1%	-	-	-	2.3%
FTSE TMX Canada Universe Bond Index	1.7%	-	-	-	2.8%
Class F	1.8%	-	-	-	2.8%
FTSE TMX Canada Universe Bond Index	1.7%	-	-	-	2.8%

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Summary of Investment portfolio

The tables below provide information about the investment portfolio of the Fund, including a breakdown of the Fund's portfolio into subgroups and the Top 25 positions held by the Fund as a percentage of NAV.

Total Net Asset Value: **\$ 5,043,272**

Portfolio Allocation

	% of Fund's Net Asset Value
Corporate Bonds	65.59%
Provincial Bonds	29.41%
Federal Bonds	2.77%
Cash	2.27%
Net Other Assets (Liabilities)	-0.04%
	<hr style="width: 100%; border: 0.5px solid black;"/> 100.00%

Top 25 Holdings

	% of Fund's Net Asset Value
1 Province of Manitoba, 1.55%, 05/09/2021	6.41%
2 Province of Nova Scotia, 2.10%, 01/06/2027	5.55%
3 PSP Capital Inc., 1.34%, 18/08/2021	5.37%
4 Province of Ontario, 2.40%, 02/06/2026	5.00%
5 Bank of Montreal, 1.61%, 28/10/2021	4.86%
6 Province of Alberta, 2.20%, 01/06/2026	4.14%
7 Nissan Canada Financial Services Inc., 1.58%, 07/10/2019	3.95%
8 Laurentian Bank of Canada, 2.81%, 13/06/2019	3.67%
9 Sun Life Financial Inc., 4.38%, 02/03/2022	3.67%
10 Ford Credit Canada Ltd., 2.58%, 10/05/2021	3.45%
11 Honda Canada Finance Inc., 2.16%, 18/02/2021	3.00%
12 Laurentian Bank of Canada, 2.56%, 26/03/2018	2.98%
13 TransCanada Pipelines Ltd., 3.69%, 19/07/2023	2.66%
14 Bank of Montreal, 3.32%, 01/06/2026	2.52%
15 Daimler Canada Finance Inc., 2.23%, 16/12/2021	2.48%
16 The Bank of Nova Scotia, 2.58%, 30/03/2027	2.41%
17 Cash	2.27%
18 HSBC Bank Canada, 2.91%, 29/09/2021	2.25%
19 TELUS Corp., 5.05%, 04/12/2019	2.17%
20 Province of Alberta, 1.35%, 01/09/2021	2.15%
21 Province of New Brunswick, 3.35%, 03/12/2021	2.13%
22 Enbridge Pipelines Inc., 3.79%, 17/08/2023	2.13%
23 Bell Canada, 3.25%, 17/06/2020	2.07%
24 Manufacturers Life Insurance Co., 3.18%, 22/11/2027	2.04%
25 Thomson Reuters Corp., 4.35%, 30/09/2020	2.03%
	<hr style="width: 100%; border: 0.5px solid black;"/> 81.36%

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund and a monthly update is available at www.marquest.ca. The weightings of the positions are calculated based on total NAV of the portfolio as at December 31, 2016. The Fund does not hold short positions. The prospectus and other information of Marquest Canadian Fixed Income Fund are available on the internet www.sedar.com.

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